

## Message Text

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ACTION OPIC-06

INFO OCT-01 EA-07 ISO-00 EB-07 COME-00 AID-05 TRSE-00

SP-02 CIAE-00 INR-07 NSAE-00 INT-05 XMB-02 OMB-01

/043 W

-----060938Z 041551 /11

R 060809Z MAY 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9393

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PASS TO OPIC ATTN: HILL

E.O. 11652: N/A

TAGS: OTRA, EFIN, RP

SUBJECT: BENGUET PROJECT

1. SUMMARY. BASED ON DISCUSSIONS HERE WITH BENGUET, DEVELOPMENT BANK OF THE PHILIPPINES AND OTHERS, BELIEVE OUR TECHNICAL AND GENERAL CREDIT CONCERNS HAVE BEEN RESOLVED OR ARE RESOLVEABLE. SUGGEST DUFFY/BROWNE BEGIN WORK ON LOAN PAPER PRIOR BOSTWICK RETURN. END SUMMARY.

2. IN DISCUSSIONS THIS WEEK WITH BENGUET, DEVELOPMENT BANK OF THE PHILIPPINES, BANK OF AMERICA, CHASE MANHATTAN (WHICH HAS COMMITTED \$15 MILLION TO PROJECT ALONGSIDE BOA \$15 MILLION COMMITMENT), MOST OF WHICH MEETINGS ATTENDED ALSO BY EXIM REPRESENTATIVES, HAVE EXPLORED ALL ASPECTS OF PROJECT INCLUDING FINANCIAL STRUCTURE/EQUITY CONTRIBUTION, MERCURY CONTENT IN COPPER, SUPPLY CONTRACTS, HIGH LEVERAGING OR PROJECT, COST OVERRUNS, CONTERCLAIMS AGAINST DIZON CLAIMS, REASON JAPANESE COMPANIES GAVE UP THEIR CLAIMS, ETC. ALL OF THESE ISSUES APPEAR TO HAVE SATISFACTORY ANSWERS OR ARE RESOLVABLE.

3. REGARDING PRIOR JAPANESE CLAIMS, NIPPON DROPPED THEIR CLAIM

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BECAUSE OF THEIR DESIRE TO PURSUE OTHER OPPORTUNITY IN AFRICA AND BECAUSE AT THE TIME THEY DROPPED CLAIM, THE PRICE OF GOLD WAS NOT SUFFICIENTLY HIGH TO SUPPORT THE RELATIVELY LOW GRADE OF COPPER. MITSUBISHI CLAIM HAD TO BE DROPPED BECAUSE THEY CAME INTO CONFLICT WITH FILIPPINE LAW REQUIRING MINIMUM 60 PERCENT PHILIPPINE OWNERSHIP OF NATURAL RESOURCES PROJECTS. MITSUBISHI DID IN FACT MAKE PROPOSAL TO GOVERNMENT WHICH PRO-

POSED 40 PERCENT MITSUBISHI OWNERSHIP, BUT GOVERNMENT DENIED THIS APPLICATION BECAUSE THEY FELT THE 60 PERCENT OWNED PHILIPPINE COMPANY SET UP TO RUN PROJECT WAS IN FACT A DUMMY CORPORATION. SINCE MITSUBISHI CLAIM DROPPED, ACCORDING TO EXIM ENGINEER INTERVIEWS WITH OTHER PHILIPPINE COPPER COMPANIES, THE DIZON CLAIMS HAVE BEEN ACTIVELY PURSUED BY OTHER PHILIPPINE COPPER COMPANIES INCLUDING ATLAS AND MARCOPPER, WITH BENGUET WINNING OUT. ACCORDING TO DIZON FAMILY SOURCE, CHOICE OF BENGUET INCLUDED MANAGEMENT CONSIDERATIONS AND FACT THAT COMPANY WAS BASICALLY APOLITICAL. OTHER PHILIPPINE COPPER COMPANIES FEEL THE DIZON DEPOSIT WILL BE PROFITABLE AND ONE VENTURED OPINION THAT PROJECT HAD IN FACT BEEN OVERSTUDIED.

4. REGARDING BENGUET EQUITY CONTRIBUTION, BOSTWICK HAS ADVISED BENGUET (LAZARO), DBP AND BOA THAT WE CONSIDER THE BENGUET CONTRIBUTION MARGINAL UNDER WORST CASE ASSUMPTIONS. BENGUET REACTION WAS THAT THEY COULD NOT AFFORD TO MAKE MORE OF AN INITIAL CONTRIBUTION, BUT IT IS MORE LIKELY THAT THEY WISH TO MAINTAIN A CASH RESERVE WHICH COULD BE A BARGAINING CHIP WITH LEADERS IN ANY DISCUSSION OF OVERRUN FUNDING REQUIREMENTS. LAZARO (BCI) ALSO INDICATED THAT THEY ARE FINE TUNING THEIR PROJECT COSTS (WHICH HE ADMITS TO BEING INITIALLY OVERSTATED) WITH THE RESULT THAT THEY WILL BE ABLE TO MAKE SOME SAVINGS ON MACHINERY AND EQUIPMENT AND OTHER COSTS WHICH WILL BE PUT IN THE PROJECTS CONTINGENCY ACCOUNT. DBP REACTION WAS THAT THEY REQUIRED AN INITIAL MINIMUM 70/30 DEBT/EQUITY STRUCTURE FOR ANY PROJECT AND THAT PROJECT COSTS ARE CAREFULLY REVIEWED BEFORE ACCEPTANCE. BOA HAD NO REACTION TO THE FOREGOING.

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5. REGARDING OVERRUNS, WE WERE TOLD BY MRS. REYES OF DBP THAT DBP, IN CONSIDERATION FOR THE AMOUNT OF GUARANTEES (\$77 MILLION) THEY WERE BEING ASKED TO PROVIDE, WOULD REQUIRE BENGUET TO SIGN "SUBSCRIPTION CONTRACTS" (EQUITY COMMITMENTS) IN ADVANCE OF DBP APPROVAL TO COVER ANY COST OVERRUNS. BOSTWICK ADVISED BCI, BOA AND DBP THAT HE WAS MOST GLAD TO HEAR THIS, AND THAT THIS WAS A TYPICAL CONDITION OF OPIC COMMITMENTS AS WELL. EXIM REPS WERE ALSO PLEASED TO HEAR THIS REQUIREMENT. BCI CAN BE EXPECTED TO BALK AT THIS BUT BOSTWICK DOES NOT THINK THEY HAVE MUCH ROOM IN WHICH TO MANEUVER. BECAUSE OF NATURE OF PNB "GUARANTEE" (I.E., ONE-YEAR RENEWABLE STANDBY LETTER OF CREDIT), IT WOULD NOT BE APPROPRIATE FOR OPIC EVEN THOUGH MUCH CHEAPER THAN DBP GUARANTEE.

6. REGARDING OTHER DBP MATTERS, THEY ARE USING 63 CENT COPPER AND 125 DOLLAR GOLD IN THEIR REVIEW. THEY ALSO USED 63 CENT COPPER IN A RECENT REVIEW AND APPROVAL OF ANOTHER COPPER PROJECT. DBP IS ALSO BEING ASKED TO PROVIDE \$7.5 MILLION IN LONG TERM FOREX FUNDING TO THE PROJECT FROM THEIR IBRD AND ADB LINES OF CREDIT.

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/043 W  
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7. POTENTIAL OR REQUESTED FUNDING FOR PROJECT NOW AS FOLLOWS:

DBP - \$7.5MM FOREX, OUT OF 10 YEARS WITH APPROPRIATE GRACE,  
14 PERCENT INTEREST PLUS 2 PERCENT SERVICE CHARGE.

COMMERCIAL BANKS - \$15MM EACH COMMITTED BY BOA AND CHASE AT  
1.75 PERCENT ABOVE LIBO FOR 7.5 YEARS. DBP GUARANTEE FOR THESE  
LOANS ADDITIONAL 3 PERCENT AND WITHHOLDING TAX ON INTEREST IS  
15 PERCENT. BOA HAS AGREED TO SYNDICATE ANOTHER \$20MM IF  
NECESSARY.

EXIM BANK.- \$25 - 35MM, 8-10 YEARS AT 8.5 PERCENT, PLUS 3  
PERCENT DBP GUARANTEE FEE. (PLEASE NOTE THAT EXIM HAS NOT IN ANY  
WAY INDICATED TO BENGUET, DBP OR OPIC THAT IT WILL IN FACT MAKE  
A COMMITMENT TO PROJECT).

OPIC - \$20 - 25MM, 10-11 YEARS AT LENDER'S RATE PLUS 2  
PERCENT OPIC GUARANTEE FEE, 3 PERCENT DBP GUARANTEE FEE, AND  
15 PERCENT WITHHOLDING TAX ON LENDERS INTEREST. BOSTWICK CAL-  
CULATES THIS MAKES OPIC MONEY AROUND 14 PERCENT TO THE PROJECT, MORE  
EXPENSIVE THAN COMMERCIAL BANKS OR EXIM, BUT ARGUABLY REF-  
LECTIVE OF THE LONGER TERM OF OUR GUARANTEED LOANS.

CANADIAN EXPORT DEVELOPMENT CORPORATION. - BCI HAS A COM-  
MITMENT FROM THE CANADIANS TO PROVIDE \$40 - 45 MILLION FOR  
PURCHASE OF MACHINERY AND EQUIPMENT, WHICH THEY WILL USE IF U.S.  
EXIM DOES NOT COMMIT. IN THAT EVENT BOSTWICK ADVISED THEM THAT  
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THE OPIC GUARANTEED LOANS WOULD BE TIED TO U.S. PROCUREMENT AND THAT THERE SHOULD BE SOME GENERAL "PARITY" BETWEEN U.S. AND CANADIAN PROCUREMENT.

BCI - \$10MM IN EQUITY SO FAR.

8. RE EXIM BANK. WHILE EXIM BANK REPS HAVE BEEN PARTICULARLY CAUTIOUS ABOUT EXPRESSING THEIR OPINIONS OR PROCLIVITIES ABOUT THE BENGUET PROJECT, BOSTWICK FEELS THAT MOST IF NOT ALL OF THEIR TECHNICAL AND GENERAL CREDIT APPREHENSIONS REGARDING THE PROJECT HAVE BEEN RESOLVED OR ARE RESOLVABLE. THEIR CHIEF ENGINEER (BROIS) AND PROJECT ENGINEER (WISNIEWSKI) SEEM TO BE SATISFIED WITH TECHNICAL ASPECTS OF THE PROJECTS. HOWEVER, EXIM HAS OTHER CONSIDERATIONS IT MUST BEAR IN MIND, INCLUDING THEIR OVERALL PHILIPPINE EXPOSURE AND EXPOSURE IN OTHER COPPER PROJECTS. THEREFORE EXIM APPROVAL OF LOAN TO THE PROJECT COULD BE CONSIDERED TENUOUS.

9. REGARDING PHILIPPINE CENTRAL BANK APPROVAL OF LOAN TERMS, CB IS SAID TO BE REVIEWING CAREFULLY LOAN TERMS AND INTEREST RATES. THERE IS OSTENSIBLY A CEILING ON PERMISSIBLE INTEREST RATES, BUT EXCEPTIONS ARE KNOWN TO BE GRANTED. PREPAYMENT OF LOANS IS NOT REPEAT NOT PERMITTED. COMMITMENT FEES FROM 1/2 TO 3/4 PERCENT ARE PERMITTED. BORROWER AND LENDER USUALLY APPROACH BANK INFORMALLY FROM A DISCUSSION OF LOAN TERMS PRIOR TO ANY FORMAL SUBMISSION OF LOAN AGREEMENT FOR APPROVAL. CURRENT CB STRINGENCY IN APPROVAL OF FOREIGN LOAN TERMS RELATES TO HIGH EXTERNAL DEBT SERVICE PROBLEMS OF THE PHILIPPINES AND THEIR DESIRE TO GET A BETTER GRASP ON TOTAL FOREX OBLIGATIONS OF THE COUNTRY. MAJOR MITIGATING FACTOR FOR BENGUET PROJECT AND PROJECT FINANCING IS FACT THAT ALL EARNINGS OF THE PROJECT ARE IN FOREIGN EXCHANGE.

10. BOSTWICK FORWARDING ATTENTION DUFFY/BROWNE A PACKAGE OF MATERIALS GIVEN HIM BY BCI BEFORE HIS DEPARTURE WHICH CONTAINS INFORMATION RELATING TO FOREGOING AND OTHER QUESTIONS, PLUS NOTES ON HIS LIMITED OFFICIAL USE

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DISCUSSIONS WITH BCI AND OTHERS HERE IN MANILA. DUFFY/BROWNE SHOULD CONTINUE REVIEW MSME REPUTATION AND OTHER TECHNICAL ASPECTS DISCUSSED BEFORE BOSTWICK DEPARTURE.

11. NEW SUBJECT: UMPC TAIWAN - LOOKS LIKE A GOOD PROJECT FOR OPIC, BUT ROC CENTRAL BANK PRESENTLY PERMITTING ONLY A MAXIMUM INTEREST RATE OF 9 PERCENT FOR LONG-TERM FOREX LOANS.  
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## Message Attributes

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Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009